SASKATCHEWAN HEALTHCARE EMPLOYEES' PENSION PLAN

2008 Annual Report

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Our Mission

To serve the best pension interests of the members.

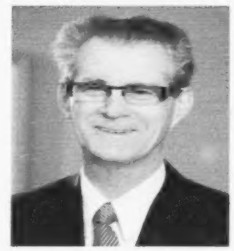
Our Vision

A quality retirement future through meaningful benefits.

Our Values

Openness, Respect and Service
Accountability, Integrity and Trust
Leadership and Professionalism
Excellence, Initiative and Innovation.

Message from the Chair and Vice-Chair



On behalf of the Board of Trustees, we are pleased to present the 2008 Annual Report of the Saskatchewan Healthcare Employees' Pension Plan (SHEPP).

Turmoil in the global markets in 2008 produced one of the worst years ever for pension plan returns. The SHEPP fund rate of return was -19.8 per cent in 2008. While distressing, it is important to note that our fund outperformed the benchmark by 1.3 per cent over the year.

In 2008, the Board decided to revise the pension fund's asset mix to increase our target weighting in real estate and to introduce a weighting to infrastructure. These inflation sensitive asset classes have been chosen to provide steady cash flow and mitigate risk over the long term.

Three new investment managers were hired in 2008: AXA Rosenberg to manage a new active global 130/30 mandate; Wellington Management to manage a new global equity mandate; and Greystone Managed Investments to manage a new real estate mandate. In addition, our currency hedge was changed from passive to active and was extended to all of the fund's foreign currency assets. JP Morgan Asset Management is responsible for the active currency management mandate.

As a relatively young plan, with contributions exceeding our benefit and administration costs for a number of years to come, we have a long-term investment horizon and time to weather the current financial storm.

The Board met in May 2008 to discuss and set SHEPP's strategic direction for the next three years. Five key strategic initiatives were identified by the Board: emphasize fiduciary responsibility through enhanced risk management measures; strengthen our investment management framework to emphasize asset mix policy development and evaluation; develop and retain a quality SHEPP workforce; focus our communication and education efforts on enhancing stakeholder understanding and appreciation of the plan's defined benefit design; and enhance communication with the Employer and Union Partner Committees to better align strategic and operational activity. All initiatives were well underway by year-end.

We believe that actions should speak louder than words and that at all levels SHEPP's actions emphasize accountability, openness and integrity. The events of 2008 present SHEPP with a significant funding challenge into the future. We are up to the challenge.

The Board of Trustees applauds the CEO and the SHEPP staff for their dedication and achievements in 2008. We look forward to serving plan members, unions and employers in 2009.

Jim Tomkins
Chair

Andrew Huculak
Vice-Chair

from the CEO *Message*

It is an understatement to say that 2008 was eventful.

While financial market turmoil dominated the year's events, much more happened, with some very good results.

Work started in January on the preparation of the December 31, 2007 actuarial valuation of the plan. The completed valuation was received and approved by the Board on September 23. Our ability to accelerate the actuarial valuation process and reduce fees is directly attributable to the effective design and operation of our recently implemented Penfax administration system.

The valuation reported that in the three years since the previous valuation, the investment policies and procedures of the Board had produced a $177 million gain over expected investment revenues. Those gains were offset by increases in the plan's liabilities produced by earnings increases experienced by many plan members since the last valuation. The overall result was that the plan's going-concern unfunded liability increased from $74 million to $255 million. And, for the first time, the plan reported a solvency deficit. That deficit was a modest $16 million establishing our solvency funding ratio at 99.48 per cent.

Contribution rate increases, recommended by the plan actuary, will be implemented starting the first pay period in April 2009 to fully address the December 31, 2007 actuarial valuation unfunded liability and solvency deficiency within the prescribed deadlines.

Actuarial valuations must be performed not less than every three years. They are the ultimate measuring stick of a defined benefit pension plan. Effectively communicating the results and effects of an actuarial valuation to plan members, participating employers and stakeholders is essential.

Within days of the approval of the actuarial valuation a newsletter was mailed to each active plan member, pensioner and participating employer setting out the results and explaining how they are affected. The active member and pensioner notices were posted to SHEPP's public web site and our Member Services team was fully briefed and standing by to respond to calls, e-mails and letters.

Since its establishment on December 31, 2002, SHEPP had contracted the Saskatchewan Association of Health Organizations (SAHO) to provide accounting services. On October 1 these services were successfully relocated in-house to be provided largely through SHEPP's new finance department.

We have already realized efficiencies through greater systems and process integration as a result of this relocation. Most importantly, our ability to manage operational and financial risk has been significantly strengthened by bringing professional financial management positions directly into our organization.

Our objective to complete the implementation of Management Console in 2008 was not realized. This element of our integrated administration system will help with the delivery of member services to be conducted online through effective and secure work groups involving SHEPP, participating employers and plan members. We are grateful to those participating employers that worked with us in 2008 in deployment testing of Management Console. Many of their ideas and recommendations have found their way into the final production version, which is now scheduled for implementation in 2009.

2008 demanded nerves of steel for investors. It was difficult to maintain faith when equity markets experienced record declines while at the same time there was significant movement in bond yields and currencies.

Our funded status has decreased as a result of the significant decline in the market value of our assets to December 31, 2008. But, we have the critical thinkers in place to bring the discipline and leadership needed on the road to recovery.

I thank the Board of Trustees for its support and commend the trustees for their efforts and actions. SHEPP staff have again distinguished themselves as the capable and caring people they are.

Brad Garvey
CEO

Profile

About us

The Saskatchewan Healthcare Employees' Pension Plan (SHEPP) is the largest defined benefit pension plan in Saskatchewan.

Originally established in 1962 for Saskatchewan hospital employees, the plan has grown to become the pension plan for over 43,700 current and former healthcare workers in the province.

With its competitive pension formula, enriched early retirement and bridge benefits, portability and transfer features, the plan forms the foundation for financial security for members at retirement.

Board of trustees

The Board is made up of four employer appointed and four employee appointed trustees. The Saskatchewan Association of Health Organizations (SAHO) appoints the employer trustees and the four largest healthcare unions each appoint one employee trustee.

Partner committees

Plan design issues, such as benefit and contribution levels, are negotiated by two partner committees representing employers and employees.

SAHO appoints representatives to the employer committee, and six healthcare unions appoint representatives to the employee committee:

Canadian Union of Public Employees
Service Employees International Union
Saskatchewan Union of Nurses
Health Sciences Association of Saskatchewan
Saskatchewan Government and General Employees' Union
Retail, Wholesale and Department Store Union

SHEPP employees

Under the oversight of the Board of Trustees, SHEPP's 24 employees are responsible for the day-to-day operation of the plan.

SHEPP employers

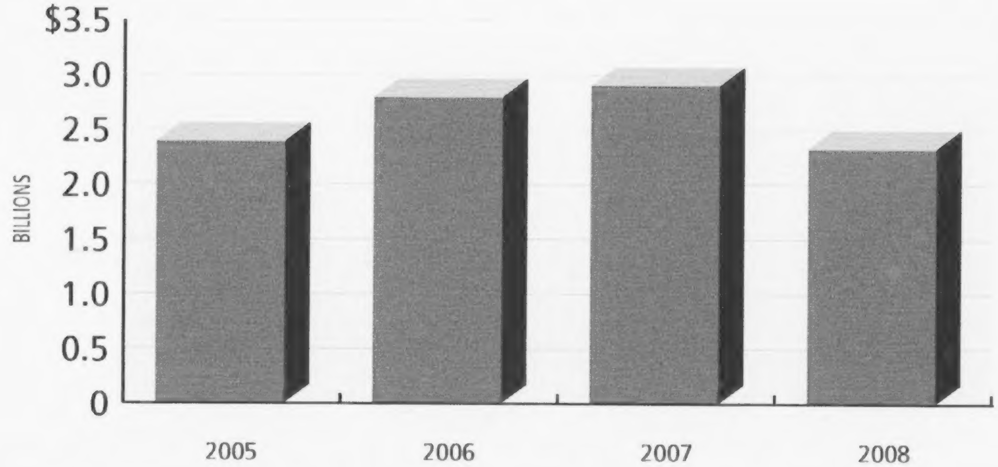
A total of 65 healthcare employers in Saskatchewan participate in SHEPP on behalf of their employees.

All Nations Healing Hospital
Alzheimer Society of Saskatchewan Inc.
Angus Campbell Centre
Bethany Pioneer Village
Birch Manor
Border-Line Housing Co. (1975) Inc.
Creighton Alcohol and Drug Abuse Council
Cupar & District Nursing Home
Cypress Regional Health Authority
Deer Park Villa Inc.
Dr. Noble Irwin Healthcare Foundation Inc.
Eaglestone Lodge - Personal Care Home Inc.
Eatonia Oasis Living Inc.
Elmwood Residences Inc.
Extendicare Moose Jaw
Extendicare Saskatoon
Extendicare Regina
Five Hills Regional Health Authority
Foyer Saint Joseph Nursing Home
Gull Lake & District Road Ambulance Board Corporation
Haven of Hope Home Inc.
Heartland Regional Health Authority
Herbert Group Home
Ina Grafton Gage Home
Keewatin Yatthé Regional Health Authority
Kelsey Trail Regional Health Authority
Langham Senior Citizen's Home
Lumsden & District Heritage Home
LutherCare Communities
Mamawetan Churchill River Regional Health Authority
Métis Addictions Council of Saskatchewan Inc.
Mont St. Joseph Inc.
Moose Jaw Health Foundation
North Sask. Laundry & Support Services Ltd.
Oak Trees & Acorns Child Care Centre Inc.
Pioneers Haven Co. Inc.
Prairie North Regional Health Authority
Prince Albert Parkland Regional Health Authority
Providence Place for Holistic Health
Qu'Appelle House
Radville Marian Health Centre
Regina Lutheran Home
Regina Pioneer Village Ltd.
Regina Qu'Appelle Regional Health Authority
Regina Recovery Homes Inc.
Registered Psychiatric Nurses Assoc. of Saskatchewan
Saint Joseph's Health Centre
Saint Joseph's Home
Saint Joseph's Hospital, Estevan
Saint Joseph's Hospital, Gravelbourg
Salvation Army William Booth Special Care Home
Santa Maria Senior Citizens Home Inc.
Saskatchewan Voice of People with Disabilities Inc.
Saskatchewan Association of Health Organizations
Saskatchewan Association of Licensed Practical Nurses
Saskatchewan Cancer Agency
Saskatchewan Healthcare Employees' Pension Plan
Saskatchewan Society of Medical Laboratory Technologists Inc.
Saskatoon Housing Coalition
Saskatoon Regional Health Authority
Spadina Early Learning and Childcare Co-operative
Sun Country Regional Health Authority
Sunrise Regional Health Authority
The Health Foundation of East Central Saskatchewan
Yorkton Mental Health Drop-In Centre

Financial Highlights

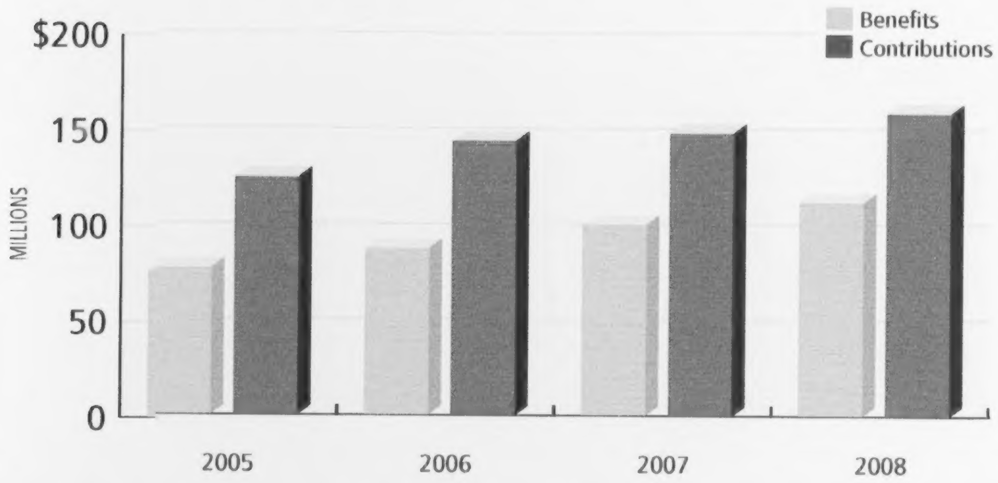
	2008 ($000's)	2007 ($000's)	2006 ($000's)	2005 ($000's)
Net Assets Available for Benefits	**2,499,878**	**3,072,654**	**2,965,445**	**2,560,607**
Accrued Pension Obligation	**3,512,971**	**2,888,346**	**2,676,785**	**2,469,630**
Contributions				
Member Required	75,415	70,017	67,912	59,542
Employer Required	84,464	78,419	76,061	66,686
Other	3,021	3,904	4,071	2,830
Total Contributions	**162,900**	**152,340**	**148,044**	**129,058**
Benefit Payments				
Pension	93,519	82,942	73,647	66,189
Terminations and Death	22,820	21,611	18,179	15,257
Total Benefit Payments	**116,339**	**104,553**	**91,826**	**81,446**
Plan Expenses				
Administrative	3,469	3,045	2,771	2,467
Investment	9,450	8,236	6,688	5,838
Total Plan Expenses	**12,919**	**11,281**	**9,459**	**8,305**

Net Assets Available for Benefits



Net assets available for benefits decreased by $573 million in 2008.

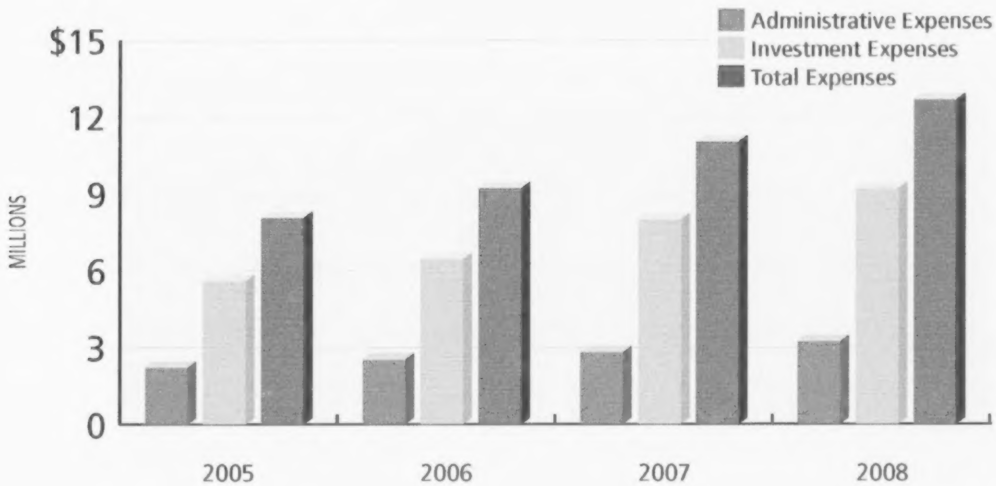
Benefits and Contributions



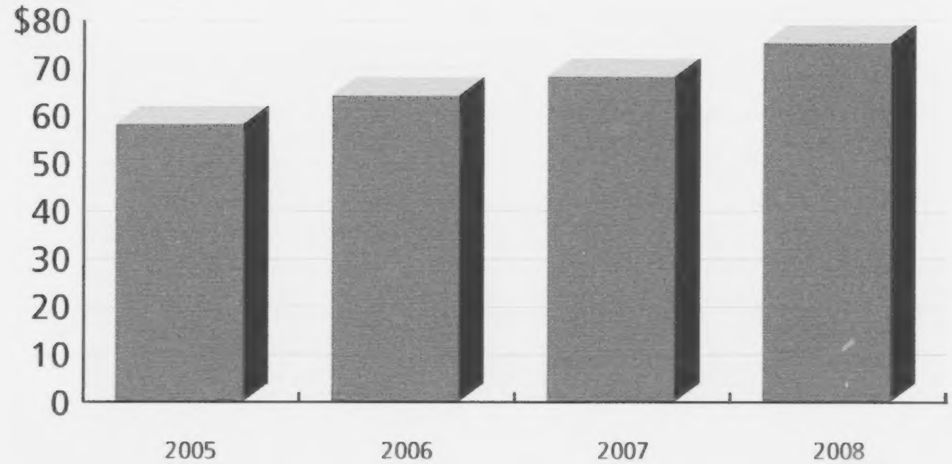
Employee and employer contributions to the Plan were $163 million in 2008.

A total of $116 million was paid out in pension, termination and death benefits during the year, a 11.3 per cent increase over the previous year.

Administrative Expenses, Investment Expenses, and Total Expenses



Administrative Cost per Member



In 2008, the cost of providing services to plan members was $79 per member. This cost ranks among the lowest compared to other public sector pension plans that benchmark costs. SHEPP remains committed to administering the plan in a cost effective manner.

Member Services

We provide a number of services to members throughout their entire membership in the plan. Whether they are receiving pension benefits, thinking about retirement or new members to the plan, our goal is to provide the highest quality of service.

This means friendly, timely and accurate service designed to keep them informed and provide them with the personalized information they need to make educated retirement decisions.

Customer service

We provide friendly and efficient customer service in person, by phone, fax, regular mail and e-mail. SHEPP handled thousands of requests for information from members in 2008. For example, SHEPP performed 7,808 retirement, termination and death benefit calculations and 115 spousal relationship breakdown calculations last year.

SHEPP staff also delivered pension presentations at employer sites throughout the province.

Personalized information

Annually, active and deferred members receive personal statements of their SHEPP benefits, contributions and service. The statements use a friendly format to help members better understand the key features of their SHEPP benefits.

Print and online materials

We publish a full range of printed materials relating to the plan. Among those is the plan booklet, which explains the plan and its benefits.

Information sheets such as beneficiary designations, purchase of prior service, spousal relationship breakdown, power of attorney and portability agreement transfers are available, and information sheets on other topics are planned for the future.

Our web site at www.shepp.ca provides a wealth of information on everything from governance to investments, as well as links to other sites.

SHEPPWeb

SHEPP has developed a secure online pension information service for active plan members. Using *SHEPPWeb*, active plan members can:

- perform pension projection calculations;
- perform prior service cost estimates;
- view and print their latest member's annual statement; and
- view and print key elements of their pension record in SHEPP.

This new service gives members more flexibility and access to their pension information 24 hours a day, seven days a week.

Did You Know?

Over 32,800 personal statements were mailed to members last year.

In 2008, SHEPPWeb was accessed by 7,634 users.

Did You Know?

SHEPP welcomed 2,674 new members in 2008.

About 89 per cent of members are women.

Forty-three per cent of members work less than full-time.

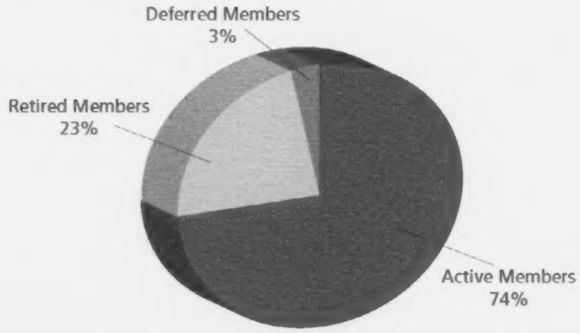
The average active plan member is 45.4 years old.

Members absent from employment due to approved disability continue to earn credited service and are deemed to have received pensionable earnings under the plan.

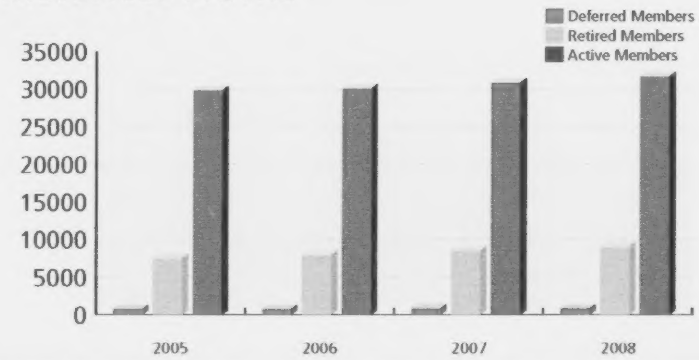
SHEPP Serves 43,729 Members

- 32,287 active members (including members absent from employment due to approved disability)
- 10,018 retired members, surviving spouses and beneficiaries
- 1,424 deferred members, or former members who left their funds in SHEPP to collect a pension at retirement

Our Membership



Historical Profile



Contributions and benefits

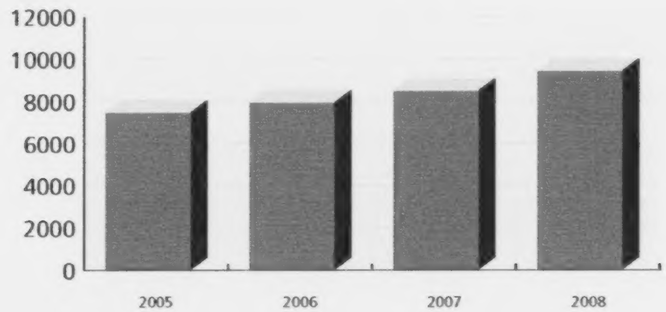
In 2008, we collected $163 million in contributions from members and employers.

During the year, a total of $94 million in pension benefits, and $23 million in termination and death benefits were paid out of the plan.

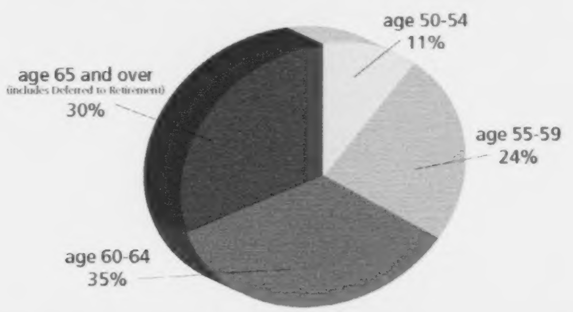
Retired members, spouses and beneficiaries

In 2008, we provided accurate and timely pension payments to 10,018 retired members, including 701 newly retired members.

Number of Retired Members



Age of New Retired Members



Did You Know?

During the next 10 years, 13,980 members will be eligible to retire with an unreduced pension.

The average new lifetime pension in 2008 was $1,197 per month. In addition, the average new bridge benefit was $250 per month for members who met the rule of 80 (age plus credited service).

Did You Know?

In 2008, the fund achieved an investment return of -19.8 per cent, 1.3 per cent above its benchmark.

SHEPP ranked 54th largest pension plan in Canada by asset size.

Investment expenses consist of fund manager, consultant and custodian fees. In 2008, the total cost of these services were about 0.38 per cent of assets.

How the fund is invested

SHEPP's assets are invested in accordance with the Board of Trustees' investment philosophy and objectives, which are outlined in its Statement of Investment Policies and Procedures.

The Board's goal is to ensure there will be sufficient funds available to pay the benefits promised under the plan. Its investment philosophy is one of prudence, with a view to earning the best possible returns within an acceptable level of risk.

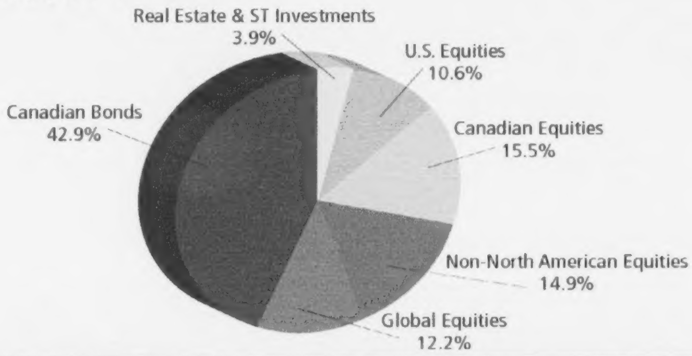
What the fund is invested in

The following charts show the fund's investments by asset class.

Historical asset mix (%)

	2005	2006	2007	2008
Canadian Equities	22.1	22.6	20.7	15.5
Non-North American Equities	20.2	21.9	20.1	14.9
Global Equities	N/A	N/A	N/A	12.2
U.S. Equities	18.4	18.1	18.3	10.6
Real Estate	0.2	0.2	0.7	1.7
Canadian Bonds	37.9	33.2	39.1	42.9
Short-Term Investments	1.2	4.0	1.1	2.2
	100	100	100	100

Asset Mix



2008 Investment Performance

The investment objective set for the fund's performance over the long term is to outperform the benchmark set for the fund and for each asset class. The benchmarks reflect the performance of the markets in which the fund is invested.

The total fund return of -19.8 per cent is a reflection of the global financial crisis that resulted in a synchronized decline in equity markets and corporate bonds. The market uncertainty around financial institutions' exposure to subprime assets started to surface in 2007, however, the situation worsened to an all out seizing up of the credit markets by the third and fourth quarters of 2008. Though the fund had no exposure to the toxic assets that led to the downturn, the equity bias in the fund's long term strategic mix meant it was not immune from the global capital market disruption. The fund's well diversified stock portfolio recorded sharp losses for the year, as global markets provided nowhere to hide. Canadian investors benefited from currency gains in their foreign equity portfolios, as the Canadian dollar depreciated sharply against the US dollar and other foreign currencies. However, even with this buffering impact, the foreign equity portfolios were down significantly. The bond component of the portfolio provided better returns, as expected in market downturns, however, the benefits of this safe haven asset class was muted as any exposure to credit, including investment grade corporate bonds, resulted in price declines. Against this very challenging market environment, the fund beat its benchmark by 1.3 per cent for the year. The main contributor to the above benchmark result was a below benchmark exposure to equities.

The fund's four and 10 year annualized rate of return are 1.2 and 4.7 per cent. The absolute returns for these longer term periods were significantly impacted by the weak return for 2008. The active management program has been beneficial, adding value in nine of the past 10 years, for an incremental return of 1.0 percent per year.

Total fund return

	2006	2007	2008
Annual return	13.9	2.3	-19.8
Annual benchmark	13.6	2.5	-21.1
Four year annualized return	12.6	9.7	1.2
Four year annualized benchmark	12.1	9.0	0.4

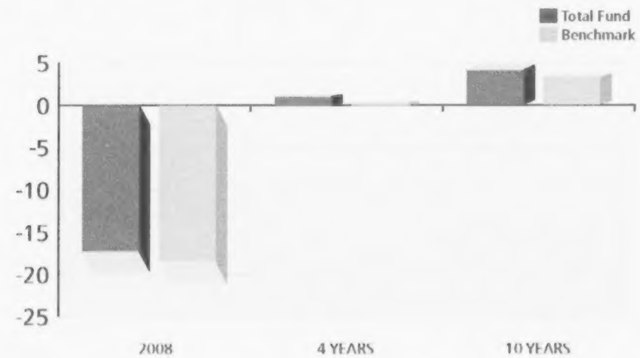
Did You Know?

If you are interested in receiving a copy of SHEPP's Statement of Investment Policies and Procedures, please visit our web site or contact sheppinfo@shepp.ca

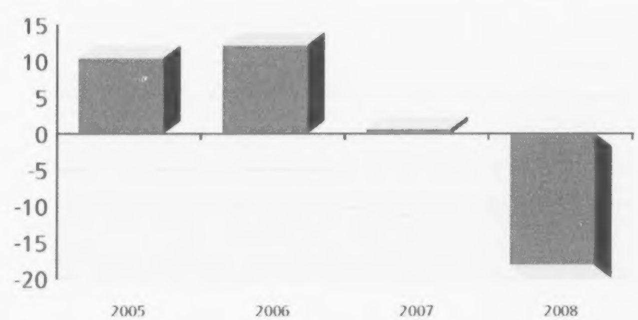
Did You Know?

SHEPP's long-term target asset mix is about 60 per cent equities, 25 per cent fixed-income (bonds), 10 per cent real estate and five per cent infrastructure.

Total fund vs. benchmark return (%)



Historical total fund return (%)



Management's Responsibility for Financial Reporting

The SHEPP consolidated financial statements and all the information in this Annual Report are the responsibility of management and have been approved by the Board of Trustees.

The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles and include some amounts that are necessarily based on management's best estimates and judgments. Financial and operating information presented in the Annual Report are consistent with the consolidated financial statements. Systems of internal control and practices are maintained to provide reasonable assurance that transactions are authorized, assets are safeguarded and proper records are maintained.

KPMG LLP, the external auditor appointed by the Board of Trustees, has conducted an independent examination of the consolidated financial statements in accordance with generally accepted auditing standards, performing such tests and other procedures as they consider necessary to express an opinion in the Auditors' Report. The external auditor has unrestricted access to management and the Board of Trustees to discuss any findings related to the integrity of the plan's financial reporting and adequacy of the internal control systems.

Brad Garvey
CEO

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Chartered Accountants
McCallum Hill Centre, Tower II
1881 Scarth Street, 20th Floor
Regina Saskatchewan S4P 4K9
Canada

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Internet www.kpmg.ca

AUDITORS' REPORT

To the Board of Trustees of the Saskatchewan Healthcare Employees' Pension Plan

We have audited the consolidated statement of net assets (liabilities) of the Saskatchewan Healthcare Employees' Pension Plan as at December 31, 2008 and the consolidated statement of changes in net assets (liabilities) for the year then ended. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the net assets of the Plan as at December 31, 2008 and the change in net assets for the year then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants

Regina, Canada
May 1, 2009

Financial Highlights
Consolidated Statement of Net Assets (Liabilities)
As at December 31

	2008 (000's)	2007 (000's)
ASSETS		
Investments (Note 4)	$ **2,512,794**	$ 3,075,402
Accrued interest receivable	**339**	1,340
Members' contributions receivable	**6,165**	6,033
Employers' contributions receivable	**6,905**	6,757
Dividends receivable	**2,236**	1,766
Securities transactions receivable	**445**	60
Capital assets (Note 6)	**1,579**	1,779
Other receivables	**414**	481
Prepaid expenses	**134**	101
	2,531,011	3,093,719
LIABILITIES		
Accounts payable	**3,274**	2,586
License fee payable	-	160
Mortgages payable (Note 10)	**27,859**	18,319
Provision for accrued pension benefits (Note 9)	**3,512,971**	2,888,346
	3,544,104	2,909,411
NET ASSETS (LIABILITIES)	$ **(1,013,093)**	$ 184,308

Commitments (Note 11)

See accompanying notes

On behalf of the Board:

Chair

Vice-Chair

Financial Highlights
Consolidated Statement of Changes in Net Assets (Liabilities)
For Year Ended December 31

	2008 (000's)	2007 (000's)
INCREASE IN NET ASSETS		
Contributions - Members	**$ 75,415**	$ 70,017
- Employers	**84,464**	78,419
- Other	**3,021**	3,904
Investment income (Note 7)	**63,265**	37,967
Net realized gain on investments	-	363,378
Realized gain on foreign exchange	-	3,284
	226,165	556,969
DECREASE IN NET ASSETS		
Pension benefits	**93,519**	82,942
Terminations and death benefits	**22,820**	21,611
Change in provision for accrued pension benefits (Note 9)	**624,625**	211,561
Net realized loss on investments	**98,217**	-
Realized loss on foreign exchange	**67,788**	-
	906,969	316,114
EXPENSES		
Administrative expenses	**2,680**	2,382
Custodian fees	**438**	268
Fund management fees	**7,535**	6,949
Investment consulting fees	**216**	180
Investment transaction fees	**1,261**	839
Professional fees	**789**	663
	12,919	11,281
	919,888	327,395
UNREALIZED GAINS (LOSSES)		
Unrealized market value loss	**(514,616)**	(356,266)
Unrealized gain on foreign exchange	**10,938**	22,340
	(503,678)	(333,926)
NET DECREASE IN NET ASSETS	**(1,197,401)**	(104,352)
NET ASSETS, BEGINNING OF YEAR	**184,308**	288,660
NET ASSETS (LIABILITIES), END OF YEAR	**$ (1,013,093)**	$ 184,308

See accompanying notes

1. SASKATCHEWAN HEALTHCARE EMPLOYEES' PENSION PLAN

The Saskatchewan Healthcare Employees' Pension Plan (SHEPP) is a multi-employer defined benefit pension plan registered under *The Pension Benefits Act, 1992* (Saskatchewan) and the *Income Tax Act* (Canada). The Plan is governed by a Board of Trustees pursuant to an Agreement and Declaration of Trust dated December 31, 2002. Four trustees are appointed by the Saskatchewan Association of Health Organizations (SAHO) and four healthcare unions each appoint one trustee. The Chief Executive Officer and SHEPP staff are responsible for the administration of the Plan, subject to Board monitoring and review.

2. DESCRIPTION OF PLAN

The following description of the Plan is a summary only. For more complete information reference should be made to the Plan text.

a) Effective date

The effective date of the Plan was March 1, 1962.

b) Eligibility

Eligible permanent full-time and permanent part-time employees of SHEPP employers must participate.

Membership is optional for eligible casual and temporary employees who work at least 780 hours in the immediately preceding calendar year or at least 700 hours in each of the two immediately preceding calendar years.

c) Member contributions

SHEPP employers are responsible for the accuracy and completeness of the payroll information on which contributions are remitted and benefits determined under the Plan. Contributions are made by both members and SHEPP employers in accordance with the provisions of the Plan.

Members are required to contribute 5.85 percent of their pensionable earnings up to the Year's Maximum Pensionable Earnings (YMPE) and 7.35 percent of pensionable earnings above the YMPE.

Plan members may purchase eligible prior service provided they satisfy the full purchase cost. These contributions are referred to as additional purchased service contributions.

Plan members may transfer in service and contributions from the pension plan of a prior employer. These contributions are referred to as portability transfer contributions.

2. DESCRIPTION OF PLAN (continued)

d) Employer contributions

Employers contribute 112 percent of a member's required contributions.

e) Amount of pension

Subject to the maximum pension limits set out in the Plan Text the basic lifetime pension is equal to the sum of:

(i) 2 percent of highest average contributory earnings (HACE)[1] multiplied by years of credited service up to December 31, 1989, plus

(ii) 1.65 percent of highest average base contributory earnings (HABCE)[2] plus 2 percent of highest average excess contributory earnings (HAECE)[3] multiplied by years of credited service between January 1, 1990 and December 31, 2000, plus

(iii) 1.4 percent of highest average base contributory earnings (HABCE) plus 2 percent of highest average excess contributory earnings (HAECE) multiplied by years of credited service after January 1, 2001.

f) Retirement dates

The normal retirement date of a member is the first day of the month coincident with or next following the member's 65th birthday.

Members can retire early with an unreduced pension as soon as their age and years of credited service add up to 80 years.

Members can retire with a reduced pension anytime after age 55 with at least two years of service. The reduction applied to the member's pension depends on how long the member has worked for his or her employer. If the member has worked for at least 10 years, the pension is reduced by the lesser of:

(i) 3 percent multiplied by the number of years, and portions thereof, that the member is short of age 65, and

(ii) 3 percent multiplied by the number of years, and portions thereof, that the member's age plus credited service is short of 80 years, and

[1] HACE – is the average of a member's four highest years of contributory earnings.
[2] HABCE – is the average of a member's contributory earnings up to the Year's Maximum Pensionable Earnings during the five highest calendar years of contributory earnings.
[3] HAECE – is the difference between a member's HACE and HABCE.

2. DESCRIPTION OF PLAN (continued)

(iii) the greater of:

(a) 3 percent multiplied by the number of years, and portions thereof, that the member is short of age 62, and

(b) 3 percent multiplied by the number of years, and portions thereof, that the member's credited service is short of 20 years.

A member may delay retirement until December 1 of the year in which they attain age 71. In this event, pension accruals will continue in the normal manner.

g) Death in service

On the death of a member before retirement, the member's surviving spouse receives the greater of:

(i) the sum of:

(a) the commuted value of the member's pension earned to the date of death in respect of all core credited service, plus excess contributions, if any, and

(b) the member's accumulated additional purchased service and portability transfer contributions, plus interest, and

(ii) the sum of:

(a) the commuted value of the member's core credited service pension earned from January 1, 1992 to the date of the member's death, plus excess contributions, if any, and

(b) twice the member's required contributions, with respect to pre-1992 core credited service, plus interest, plus the member's additional purchased service contributions and portability transfer contributions, plus interest.

If the member is not survived by a spouse, or the spouse has completed and submitted the pre-retirement death benefit waiver form prescribed under *The Pension Benefits Act, 1992* (Saskatchewan), the death benefit is payable in a lump sum to the member's designated beneficiary or estate.

h) Normal form of pension

The normal form of pension provides for monthly payments for life, with a minimum of 60 monthly payments being guaranteed in any event. Optional forms of pension are available on an actuarial equivalent basis. If the retiring member has a spouse, a joint life optional

2. DESCRIPTION OF PLAN (continued)

pension reduced by not more than 40 percent on the member's death must be elected unless the spouse has waived this option.

i) Termination of employment

Benefit entitlement to members who are terminated depends upon whether or not the member is vested.

A member is vested if on termination, the member has:

- more than two years of credited service in which case the benefit is not locked in, or
- more than two years of continuous service in which case the benefit is locked in.

A non-vested member is entitled to a refund of his or her own required and additional purchased service contributions, plus interest as either:

- a taxable payment issued directly to the member, or
- a tax exempt transfer directly to the member's personal registered retirement savings plan or other qualifying vehicle.

A vested member may discharge his or her non-locked in deferred pension and receive a refund of his or her own required and additional purchased service contribution as either

- a taxable payment issued to the member, or
- a tax-exempt transfer directly to the member's personal RRSP or other qualifying vehicle.

A vested member is entitled to a deferred pension payable at age 65. The member's deferred pension is calculated based on the member's credited service and contributory earnings at the date of termination.

A vested member may discharge his or her locked-in deferred pension and transfer the present value of the deferred pension to a personal registered retirement savings plan or another registered pension plan, providing the funds transferred are administered on a locked-in basis.

j) Disability benefit

Members who become disabled under the terms of the Plan will continue to earn credited service under the Plan. Their pension at retirement is based on all years of credited service including those on approved disability, and their highest average contributory earnings are calculated assuming they had made contributions during disability based on their salary when the disability commenced.

2. DESCRIPTION OF PLAN (continued)

k) Maximum employee cost

At least 50 percent of the cost of the benefit payable at retirement or termination of employment to a member who is vested and locked-in must be provided by employer contributions. Any "excess" contributions on termination or retirement are refundable to the member.

l) Interest

For the purpose of calculating accumulated member contributions, interest rates are applied in respect of required contributions at the rates of interest determined by SHEPP from time to time, but in no event are lower than the minimum rate required by *The Pension Benefits Act, 1992* (Saskatchewan).

3. SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles and include the following significant accounting policies:

a) Changes in Accounting Policies

Effective January 1, 2008, three new presentation and disclosure standards were adopted: Canadian Institute of Chartered Accountants (CICA) Handbook Section 1535, *Capital Disclosures* (Section 1535); Handbook Section 3862, *Financial Instruments – Disclosures* (Section 3862); and Handbook Section 3863, *Financial Instruments – Presentation* (Section 3863).

Section 1535 requires the disclosure of both qualitative and quantitative information that enables users of financial statements to evaluate the entity's objectives, policies and processes for managing capital. As this standard only addresses disclosure requirements, there is no impact on the Plan's operating results.

Sections 3862 and 3863 replaced Handbook Section 3861, *Financial Instruments – Disclosure and Presentation*. The new disclosure standards increase the disclosures related to financial instruments and the nature, extent and management of the Plan's risks arising from financial instruments. The presentation standards carry forward unchanged the former presentation requirements. As these standards only address disclosure and presentation requirements, there is no impact on the Plan's operating results.

3. **SIGNIFICANT ACCOUNTING POLICIES (continued)**

b) *Consolidation*

The consolidated financial statements include the accounts of the Plan and the accounts of its 100 percent owned subsidiary, Sunrise Properties Ltd. The purpose of Sunrise is to directly own real estate properties for investment purposes. All inter-company accounts and transactions have been eliminated on consolidation.

c) *Revenue recognition*

Interest on bonds, debentures, mortgages and short term investments is recognized as it accrues. Income from income producing properties is recognized on the accrual basis as earned. Dividend income is recognized as of the date of record. Investment transactions are accounted for on the trade date. Realized gains and losses on currency forward contracts are recognized on the settlement date and unrealized gains and losses are recognized with reference to the fair value determined using appropriate valuation techniques. The Plan follows the accrual method for the recording of income and expenses.

d) *Valuation of investments*

Bonds are valued at fair value based on year-end market quotations. Equity pooled funds are valued at fair value based on the quoted market values of the underlying investments, based on the latest bid prices. Unlisted bonds are valued at fair value reflecting current market yields of similar debt obligations. Currency forward contracts are valued at fair value determined using appropriate valuation techniques. Real estate funds are valued at fair value based on the most recent appraisal and earnings results. Income producing properties are valued at fair value based on the most recent appraisal.

e) *Fair value*

Accrued interest receivable, members' contributions receivable, employers' contributions receivable, dividends receivable, securities transactions receivable, other receivables, and accounts payable are all short term in nature, therefore fair value approximates their carrying value.

f) *Use of estimates*

The preparation of consolidated financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the year. Actual results could differ from those estimations.

3. **SIGNIFICANT ACCOUNTING POLICIES (continued)**

g) *Provision for accrued pension benefits*

The provision for accrued pension benefits represents the most recent actuarial present value of accrued pension benefits extrapolated to the year end reporting date. Any resulting change in this provision is recognized as a revenue or expense in the consolidated statement of changes in net assets.

h) *Foreign currencies*

Foreign currency transactions are translated into Canadian dollars using the transaction date exchange rate. Monetary assets and liabilities denominated in foreign currencies are adjusted to reflect exchange rates at the balance sheet date. Exchange gains or losses arising on the translation of monetary assets and liabilities or sales of investments are included in the statement of changes in net assets in the year incurred. Future changes in the fair value of foreign currency derivative financial instruments are recognized as gains or losses in the period of change.

i) *Capital assets*

Capital assets are stated at cost less accumulated amortization. Amortization is provided on the straight-line basis over their estimated useful life as follows:

Leasehold improvements	10	years
Furniture and equipment	4 – 10	years
Pension administration system	10	years
Computer equipment	2	years

j) *Income taxes*

The Plan is not subject to income tax since it is a Registered Pension Plan as defined by the *Income Tax Act* (Canada).

4. INVESTMENTS

The objective of the Plan is to maintain sufficient assets to discharge future pension obligations and to generate cash flow required for pension plan payments. The fund has the following investments:

Summary of Investment Holdings:

		2008		2007	
Type	**Years to Maturity**	**Fair Value (000's)**	**Yield (%)**	**Fair Value (000's)**	**Yield (%)**
Bonds					
Government of Canada					
	1 - 5	$ 908	1.1	$ 5	3.9
	6 - 10	10,405	3.0	9,611	4.0
	10+	64,736	3.3 - 3.7	157,723	4.1 - 4.2
		76,049		167,339	
Provincial					
	1 - 5	$ -		$	
	6 - 10	-		4,740	4.4 - 4.5
	10+	284,152	4.6 - 5.4	256,437	4.6 - 4.8
		284,152		261,177	
Corporate		708,429	5.5 - 8.8	769,620	5.5 - 8.6
Total bonds		1,068,630		1,198,136	
Equities and equity pooled funds					
Canadian equities		385,388		632,492	
Non-North American equities		148,913		303,022	
Non-North American pooled funds		217,198		301,624	
United States pooled funds		263,994		492,635	
Global pooled funds		302,368		-	
Total equities		1,317,861		1,729,773	
Other					
Short term investments		38,781		89,592	
Futures contracts		-		444	
Real estate pooled fund		6,489		6,578	
Cash		18,888		12,345	
Income producing properties		62,125		30,900	
Unrealized gain on currency forward contracts		20		7,634	
		$ 2,512,794		$ 3,075,402	

4. INVESTMENTS (continued)

Bonds

Bonds are subject to a minimum quality standard of BBB or equivalent. In the active bond mandate, BBB bonds or lower may not be purchased if they comprise more than 15 percent of the book value of the total portfolio of any individual manager. No single issuer is to exceed 10 percent of the carrying value of the fund except for securities issued or guaranteed by the provincial or federal governments. No more than 20 percent of the carrying value of the bond portfolio may be held in foreign issuer bonds.

Equities and equity pooled funds

Pooled funds have no fixed distribution rates and returns are based on the success of the fund managers. No one holding of an individual stock may represent more than 10 percent of the carrying value of the specific equity mandate. Stock shorting is permitted and limited to a band of 25 to 35 percent of the carrying value, with a target of 30 percent. At December 31, 2008 stock shorting was permitted in one investment mandate with a carrying value of $189,000,000.

Short-term investments

Short-term investments or money market securities are comprised of investments with less than one year to maturity. The Plan requires a minimum R-1 or equivalent rating.

Real estate pooled fund

The real estate pooled fund portfolio is diversified by property type and geographic location.

Income producing properties

The Plan invests in income producing properties through its 100 percent owned subsidiary, Sunrise Properties LTD. These properties are located in Ontario, Quebec and British Columbia.

Derivative financial instruments

Derivative financial instruments are financial contracts, the value of which is derived from underlying assets or indices. Derivative transactions are conducted in the over-the-counter market directly between two counterparties or on regulated exchanges. Derivatives are permitted in the Statement of Investment Policy & Procedures (SIP&P) and may not be used for speculative purposes or to create net leverage of the Plan.

5. FINANCIAL RISK MANAGEMENT

The nature of the Plan's operations results in a statement of net assets that consists primarily of financial instruments. The risks that arise are credit risk, market risk (consisting of interest rate risk, foreign exchange risk and equity price risk), and liquidity risk.

Significant financial risks are related to the Plan's investments. These financial risks are managed by having a Statement of Investment Policies and Procedures (SIP&P), which is subject to review and approval by the Board of Trustees not less than annually.

Permitted investments under the SIP&P include equities; fixed income; cash and short-term investments; mortgages; derivatives; real estate; infrastructure and pooled funds. By investing in a well diversified portfolio of asset classes and further diversifying within each asset class, risk is reduced. The SIP&P sets out the asset mix to achieve sufficient asset growth on a risk controlled basis. The minimum, maximum and target weightings for each asset class, and sub-class, are clearly established within the total fund policy asset mix.

The SIP&P sets out a minimum quality requirement of "BBB" for bonds and debentures at the time of purchase; a minimum rating of "R-1" for short-term investments at the time of purchase and a minimum quality standard of "A" at the time of transaction for counterparties in a derivative transaction. Downgrades in qualities of an asset below the established purchased standards require immediate disclosure to the Board and require the affected investment manager to set out a course of action to resolve the deviation.

In addition the SIP&P includes maximum quantity restrictions. With limited specific exceptions, debt and equity holdings in a single company are limited to 10% of the carrying value of the total fund. The fund may not invest directly or indirectly in the securities of a corporation representing more than 30% of the votes that may be cast to elect the directors of the corporation. The fund may not invest in real property or Canadian resources properties if at the time (i) the carrying value of the investment in any one parcel of property exceeds 5% of the carrying value of the fund; (ii) the carrying value of investments in Canadian resource properties exceeds 15% of the carrying value of the fund; or (iii) the carrying value of all investments in real property and Canadian resource property exceeds 25% of the carrying value of the Plan's assets.

Maximum quantity restrictions are also applied at the investment manager level. Each investment manager engaged by the plan is responsible for investing the assets of the fund in accordance with the SIP&P, the mandate prescribed by SHEPP for the manager and the agreement under which SHEPP has contracted the manager's services.

5. FINANCIAL RISK MANAGEMENT (continued)

Credit risk

Credit risk is the risk that one party does not pay funds owed to another party. The Plan's credit risk arises primarily from two distinct sources: accounts receivable and certain investments. The maximum credit risk to which the Plan is exposed at December 31, 2008 is limited to the carrying value of the financial assets summarized as follows:

	2008 (000's)	2007 (000's)
Cash	**$ 18,888**	$ 12,345
Accrued interest receivable	**339**	1,340
Members' contributions receivable	**6,165**	6,033
Employers' contributions receivable	**6,905**	6,757
Dividends receivable	**2,236**	1,766
Security transactions receivable	**445**	60
Other receivables	**414**	481
Short-term investments	**38,781**	89,852
Bonds	**1,068,630**	1,198,136
	$ 1,142,464	$ 1,315,430

Members' and employers' contributions receivable, dividends receivable and security transactions receivable are generally received in less than 30 days. Accrued interest receivable is received on the next scheduled payment date, generally either annually or semi-annually.

Credit risk within short-term investments and bonds is managed through the investment policy that establishes a minimum credit quality for issuers and spreads the risk amongst several issuers. The investment policy requires a minimum credit quality for individual bonds of BBB for issuers at the time of issue unless otherwise specified in an investment manager's mandate and R-1 for short-term investments.

Credit ratings for bonds are as follows:

	2008		2007	
Credit rating	**Fair Value (000's)**	**Makeup of Portfolio**	**Fair Value (000's)**	**Makeup of Portfolio**
AAA	$ 316,109	29.6%	$ 419,030	35.0%
AA	435,127	40.7%	442,055	36.9%
A	267,851	25.1%	305,143	25.5%
BBB	49,533	4.6%	31,908	2.6%
	$ 1,068,630	100.0%	$ 1,198,136	100.0%

5. FINANCIAL RISK MANAGEMENT (continued)

The Plan is also subject to credit risk through its use of forward currency contracts. The contracts are entered into between the Plan and approved counterparties. The credit risk is mitigated by limiting counterparties to specific entities approved by the Board of Trustees.

At December 31, 2008 no Plan assets have been deposited or pledged as collateral or margin. As part of the Plan's securities lending strategy, collateral has been pledged to the Plan by various counterparties for securities out on loan to the counterparties. At December 31, 2008, the Plan's investments included loaned securities with a market value of $217,263,000 (2007 - $411,028,000) and the fair value of securities and cash collateral received in respect of these loans was $229,040,000 (2007 - $424,651,000).

Market risk

Market risk represents the potential for loss from changes in the value of financial instruments. Value can be affected by changes in interest rates, foreign exchange rates and equity prices. Market risk primarily impacts the value of investments.

Interest rate risk

The Plan is exposed to changes in interest rates in its fixed income investments, including short-term investments and bonds. Duration is a measure used to estimate the extent market values of fixed income instruments change with changes in interest rates. Using this measure, it is estimated that a 100 basis point increase/decrease in interest rates would decrease/increase net assets by $159,700,000 at December 31, 2008; representing 14.4 percent of the $1,107,411,000 fair value of fixed income investments.

Foreign exchange risk

The Plan is subject to changes in the United States/Canadian dollar exchange rate on its United States denominated investments. Also, the Plan is exposed to other non-North American currencies through its investment in non-North American and global equities. At December 31, 2008, the Plan's exposure to United States equities was 18 percent (2007 – 16 percent) and its exposure to non-North American equities was 18 percent (2007 – 20 percent).

The Plan manages this risk through the use of currency futures or forwards. At December 31, 2008 the fair value of currency forward contracts payable was $500,689,000 (2007 - $311,555,000) and the fair value of currency fund contracts receivable was $500,674,000 (2007 - $319,189,000).

5. FINANCIAL RISK MANAGEMENT (continued)

Equity price risk

The Plan is exposed to changes in equity prices in Canadian, United States and other markets. Equities comprise 52.4 percent (2007 – 56.2 percent) of the carrying value of the Plan's total investments. Individual stock holdings are diversified by geography, industry type and corporate entity. A 10 percent change in equity prices would result in a $131,800,000 change in the Plan's net assets.

Real estate risk

Risk in the real estate portfolio is managed through diversification across types and locations. Adverse impacts in any one segment of the market or geographic location are minimized by having holdings diversified across property type, geographic location and investment size.

Liquidity risk

Liquidity risk is the risk that the Plan is unable to meet its financial obligations as they fall due. Cash resources are managed on a daily basis based on anticipated cash flows.

6. CAPITAL ASSETS

	Cost (000's)	Accumulated Amortization (000's)	Net Book Value 2008 (000's)	Net Book Value 2007 (000's)
Furniture and equipment	$ 89	$ 49	$ 40	$ 34
Computer equipment	63	46	17	10
Pension administration system	2,408	908	1,500	1,710
Leasehold improvements	34	12	22	25
	$ 2,594	$ 1,015	$ 1,579	$ 1,779

7. INVESTMENT INCOME

	2008 (000's)	2007 (000's)
Bond interest	**$ 10,540**	$ 9,320
Dividends	**48,376**	25,635
Interest on short term investments, and cash balances	**2,052**	1,712
Other income	**688**	569
Income producing properties	**1,609**	731
	$ 63,265	$ 37,967

8. RELATED PARTY TRANSACTIONS

These consolidated financial statements include transactions for the Plan's administrative expenses paid to SAHO. All transactions are recorded at the exchange amounts agreed by the two parties.

	2008 (000's)	2007 (000's)
Expenses	$ 111	$ 113
Accounts payable	-	12

9. PROVISION FOR ACCRUED PENSION BENEFITS

The provision for accrued pension benefits is the actuarial present value of the future expected pension benefit obligation to members as determined by the actuarial valuation done by Aon Consulting Inc., an independent actuarial consulting firm, at least every three years. The last actuarial valuation was performed as of December 31, 2007. The present value of accrued pension benefits was then extrapolated to December 31, 2008 using the funding valuation cost method with the expectation that the Plan will continue on an ongoing basis.

The actuarial present value of accrued pension benefits as at December 31, 2008 and the principal components of changes in this value during the year were as follows:

	2008 (000's)	2007 (000's)
Provision for accrued pension benefits, beginning of year	$ 2,888,346	$ 2,676,785
Service accrued	150,615	140,940
Benefits paid	(116,340)	(104,553)
Interest expense	188,856	175,174
Change in actuarial assumptions	136,810	-
Actuarial loss	264,684	-
Provision for accrued pension benefits, end of year	$ 3,512,971	$ 2,888,346

Based upon the level of actual salary increases received by Plan members the Plan revised its actuarial assumption regarding salary projections. The result of the revision is reflected as a change in actuarial assumptions during the current year.

9. PROVISION FOR ACCRUED PENSION BENEFITS (continued)

The assumptions used in determining the provision for accrued pension benefits may change from year to year depending upon current and long-term market conditions. There were changes in assumptions to remaining service life and salary projection for determining the December 31, 2008 provision for accrued pension benefits. The following is a summary of the significant actuarial assumptions:

Assumptions	2008	2007
• Discount rate	6.50%	6.50%
• Inflation rate	2.75%	2.75%
• Mortality table	UP94 projected to 2015	UP94 projected to 2015
• Remaining service life	11.4 years	11.9 years
• Salary Projection		3.75%
SUN Members	14.72% for 2008 plus 2.0% for members with 20 years of service 5.00% for 2009 to 2011 and 3.75% thereafter plus 2.0% for any member who attains 20 years of service	
All Other Members	4.25% for 2008 to 2011 and 3.75% thereafter	

The following illustrates the effect of changes in the interest rate and the salary and pensionable earnings assumptions:

- A 1 percent change in the discount rate results in approximately a 15 percent change in the provision;
- A 1 percent change in the salary scale and the pensionable earnings levels results in approximately a 5 percent change in the provision.

10. MORTGAGES PAYABLE

The Plan's 100 percent owned subsidiary, Sunrise Properties Ltd., has assumed mortgages with respect to the income producing properties. The mortgages payable at December 31 consist of the following:

	2008 (000's)	2007 (000's)
Mortgage due September 1, 2015, bearing interest at 5.51% per annum, repayable in blended monthly installments of $82,005.	**$ 11,545**	$ 11,889
Mortgage due October 1, 2009, bearing interest at 5.95% per annum, repayable in blended monthly installments of $41,144.	**5,080**	-
Mortgage due January 1, 2017 bearing interest at 5.3% per annum, repayable in blended monthly installments of $30,345	**5,347**	-
Mortgage due November 1, 2017, bearing interest at 5.667% per annum, repayable in blended monthly installments of $39,938 and secured by a 25 percent mortgage bond.	**6,308**	6,430
	$ 28,280	$ 18,319

Principal is repayable for the next five years and thereafter as follows:

	(000's)
2009	$ 5,660
2010	612
2011	646
2012	682
2013	720
Subsequent years	19,960

11. COMMITMENTS

SHEPP has entered into an agreement to lease office space for a period of 10 years expiring in 2014. The rent is charged to operations in the years to which it relates. The future minimum lease payments are as follows:

	(000's)
2009	$ 149
2010	149
2011	149
2012	149
2013	149
Subsequent years	12

12. COMPARATIVE FIGURES

Certain of the comparative figures have been reclassified to conform with the current year's presentation.

Administration

CEO
Brad Garvey

External Advisors and Agents

Actuary
Aon Consulting

Auditor
KPMG LLP

Custodian
CIBC Mellon Global Securities

Legal Counsel
Lawson Lundell LLP

Pension Administration System Supply & Support
James Evans & Associates
Cronus Technologies

Investment Advisors
Hewitt Associates

Performance Measurement Service
BNY Mellon Asset Servicing

Investment Managers
Barclays Global Investors
Bentall LP
Foyston, Gordon & Payne Inc.
Franklin Templeton Investments
Greystone Managed Investments Inc.
JP Morgan Asset Management
Montrusco Bolton Investments
Phillips, Hager & North Investment Management
AXA Rosenberg Investment Management LLC
Wellington Management Company LLP